

Innovotech Inc.

Interim Financial Statements
(Unaudited)

**For the three and nine-month periods
ended
September 30, 2017 and 2016**

NOTICE OF NO AUDITOR REVIEW

Under National Instrument 51-102, part 4, subsection 4.3(3)(a); if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by the entity's auditors.

Innovotech Inc.

Statements of Financial Position

(Unaudited)

	September 30, 2017 \$	December 31, 2016 \$
Assets		
Current assets		
Cash and cash equivalents	89,316	33,169
Trade and other receivables	110,885	176,306
Inventory	34,246	36,320
Prepaid expenses	13,648	7,122
	<u>248,095</u>	<u>252,917</u>
Equipment	<u>68,620</u>	<u>72,353</u>
	<u>316,715</u>	<u>325,270</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 5)	336,191	542,276
Deferred revenue	9,303	13,318
Due to shareholder (note 9)	69,000	125,000
Current portion of repayable contributions (note 7)	-	866,151
	<u>414,494</u>	<u>1,543,745</u>
Shareholders' Deficiency		
Share capital (note 4(a))	6,992,335	6,714,372
Contributed surplus	1,389,240	1,373,088
Deficit	(8,581,837)	(9,305,935)
Warrants	102,483	-
	<u>(97,779)</u>	<u>(1,218,475)</u>
	<u>316,715</u>	<u>325,270</u>

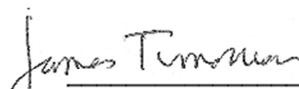
Going Concern (note 1)

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors



(Signed) "Bernard Grobbelaar" Director



(Signed) "James Timourian" Director

Innovotech Inc.

Statements of Changes in Shareholder's Deficiency (Unaudited)

	Share capital \$	Warrants \$	Contributed surplus \$	Deficit \$	Total \$
Balance – January 1, 2017	6,714,372	-	1,373,088	(9,305,935)	(1,218,475)
Net and comprehensive income for the period	-	-	-	724,098	724,098
Shares and warrants issued on private placement (note 4(a))	277,963	102,483	-	-	380,446
Employee share options Value of services recognized	-	-	16,152	-	16,152
Balance – September 30, 2017	<u>6,992,335</u>	<u>102,483</u>	<u>1,389,240</u>	<u>(8,581,837)</u>	<u>(97,779)</u>
Balance – January 1, 2016	6,714,372	231,815	1,141,273	(9,090,400)	(1,002,940)
Net and comprehensive loss for the period	-	-	-	(114,487)	(114,487)
Warrants expired (note 4(c))	-	(231,815)	231,815	-	-
Balance – September 30, 2016	<u>6,714,372</u>	<u>-</u>	<u>1,373,088</u>	<u>(9,204,887)</u>	<u>(1,117,427)</u>

The accompanying notes are an integral part of these financial statements.

Innovotech Inc.

Statements of Operations and Comprehensive Loss

(Unaudited) For the three and nine months ended September, 2017 and 2016

	Three-month period ended		Nine-month period ended	
	September 30, 2017 \$	September 30, 2016 \$	September 30, 2017 \$	September 30, 2016 \$
Revenue				
Contract research fees	178,511	167,697	549,100	415,960
Product sales	79,989	88,883	246,156	247,347
	<u>258,500</u>	<u>257,580</u>	<u>795,256</u>	<u>663,307</u>
Cost of sales				
Contract research	76,809	34,285	177,112	102,664
Product sales	34,517	30,933	69,250	95,639
	<u>111,326</u>	<u>65,218</u>	<u>246,362</u>	<u>198,303</u>
Gross profit	<u>147,174</u>	<u>192,362</u>	<u>548,894</u>	<u>465,004</u>
Operating expenses				
General and administrative	191,299	126,521	524,368	338,123
Sales and marketing	265	-	265	-
Research and development	11,575	12,658	30,961	141,016
Scientific research tax credits	-	-	(11,711)	9,282
	<u>203,139</u>	<u>139,179</u>	<u>543,883</u>	<u>488,421</u>
Interest expense	(4,910)	(17,663)	(26,149)	(54,650)
Interest income	-	-	43	-
Forgiveness of debt	745,193	-	745,193	-
	<u>740,283</u>	<u>(17,663)</u>	<u>719,087</u>	<u>(54,650)</u>
Net finance expense	<u>740,283</u>	<u>(17,663)</u>	<u>719,087</u>	<u>(54,650)</u>
Net income (loss) and comprehensive income (loss) for the period	<u>684,318</u>	<u>36,420</u>	<u>724,098</u>	<u>(78,067)</u>
Basic and diluted income (loss) per common share	<u>0.02</u>	<u>0.00</u>	<u>0.02</u>	<u>(0.00)</u>
Weighted average number of common shares outstanding for the period	<u>33,739,612</u>	<u>28,739,612</u>	<u>32,887,964</u>	<u>28,739,612</u>

The accompanying notes are an integral part of these financial statements.

Innovotech Inc.

Statements of Cash Flows

(Unaudited) For the nine months ended September 30, 2017 and 2016

	2017 \$	2016 \$
Cash provided by (used in)		
Operating activities		
Net profit (loss) for the period	724,098	(78,067)
Adjustments for:		
Amortization	12,559	18,581
Loss on disposal of equipment	(1,158)	(1,826)
Non-cash interest expense	26,149	54,650
Forgiveness of debt (note 7)	(745,193)	-
Stock-based compensation	16,152	-
	<u>32,607</u>	<u>(6,662)</u>
Net change in non-cash working capital items (note 6)	<u>(146,131)</u>	<u>(24,198)</u>
	<u>(113,524)</u>	<u>(30,860)</u>
Investing activities		
Purchase of equipment	(9,762)	-
Proceeds from disposal of equipment	2,094	3,500
	<u>(7,668)</u>	<u>3,500</u>
Financing activities		
Issuance of shares and warrants net of issuance costs (note 4(a))	380,446	-
Due to shareholders	(56,000)	25,377
Interest paid	(7,107)	(7,034)
Repayable contributions (note 7)	(140,000)	(3,500)
	<u>177,339</u>	<u>14,843</u>
Increase (decrease) in cash and cash equivalents	56,147	(12,517)
Cash and cash equivalents – Beginning of period	<u>33,169</u>	<u>32,443</u>
Cash and cash equivalents – End of period	<u>89,316</u>	<u>19,926</u>
Cash and cash equivalents comprise cash on deposit	89,316	19,926

The accompanying notes are an integral part of these financial statements.

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

1 Nature of operations and use of the going concern assumption

Innovotech Inc. (the Company) is incorporated under the Business Corporation Act of Alberta. The primary activities of the Company are sales of its products, conducting contract research for outside customers and research and development to identify products for future commercialization. The Company's current products include human and veterinary biofilm susceptibility tests, a seed treatment designed to combat both bacterial and fungal diseases, and an assay used in growing microbial biofilms for research purposes. The Company is publicly traded and listed on the TSX Venture Exchange, and its registered office is in Edmonton, Alberta.

These financial statements have been prepared using International Financial Reporting Standards applicable to a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities and commitments in the normal course of operations for the foreseeable future.

Since inception, the Company has focussed on product research, development, and more recently on commercialization activities. These efforts have been sustained by issuing share capital, obtaining grants and other government assistance, and generating revenue from the Company's contract research business and sale of products. The Company realized a net profit of \$724,098 (2016 – net loss of \$78,067) and realized an operating cash outflows of \$113,526 (2016 – cash outflow of \$30,860) for the nine-month period ended September 30, 2017 and accumulated a deficit of \$8,581,8397 at September 30, 2017 (2016 – \$9,168,467). On September 7, 2017 the Company completed a debt settlement agreement with Agriculture and Agri-Food Canada (note 7). The Company's planned level of expenditures for fiscal 2017 does not exceed its committed sources of funds. Even so, there is significant doubt about its ability to continue as a going concern and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management recognizes the Company's need to expand its cash reserves in the coming year if it intends to adhere to its research and development goals and has evaluated its potential sources of funds, including: increased revenue from contract research and sales of its products, additional grants to cover development expenditures, and possible equity financing options. Although management intends to assess and act on these options through the course of the year, there can be no assurance that steps management takes will be successful.

In the event that cash flow from operations, together with the proceeds from any future financings are insufficient to cover planned expenditures, management will allocate available resources in such manner as deemed to be in the Company's best interest. This may result in a significant reduction in the scope of existing and planned operations.

These financial statements do not reflect any adjustments, which could be material, to the carrying amounts of assets and liabilities, reported revenues and expenses, and balance sheet classifications used, that would be necessary if the Company were unable to continue as a going concern.

2 Basis of preparation

The Company prepares its financial statements in accordance with Part I of the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook) which incorporates International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

These condensed interim financial statements were approved by the Board of Directors for issue on October 31, 2017.

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

3 Significant accounting policies

New and amended standards adopted

The Company has not adopted any new or revised standards during the six months-ended June 30, 2017.

New standards not yet adopted

- a) IFRS 9, Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories.

This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

- b) IFRS 15, Revenue from Contracts with Customers deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 Revenue and IAS 11 Construction contracts and related interpretations.

This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

- c) IFRS 16, Leases establishes a single lease accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is twelve months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with the approach to lessor accounting in IFRS 16 substantially unchanged from the predecessor standards IAS 17 Leases. The standard replaces IAS 17 Leases and related interpretations.

This standard is required to be applied for accounting periods beginning on or after January 1, 2019, with earlier adoption permitted.

The Company is currently assessing the impact of adopting the above standards on the financial statements. There are no other standards, amendments or interpretations to existing standards issued but not yet effective that are expected to have a material impact on the Company.

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

4 Share capital

a) Authorized

Unlimited number of Class A common, voting shares

Issued and outstanding

	#	\$
Opening balance at January 1, 2017	28,739,612	6,714,372
Shares issued on private placement net of issuance costs	<u>5,000,000</u>	<u>277,963</u>
Balance at September 30, 2017	<u>33,739,612</u>	<u>6,992,335</u>

The Company completed a private placement on May 2, 2017 under which 5,000,000 units were issued for gross proceeds of \$400,000. Each unit is comprised of one (1) common share and one half (1/2) common share purchase warrant. Each full warrant entitles the holder to purchase one (1) additional common share at a price of \$0.10 per common share for a period of two (2) years following the date of closing. Issuance cost of \$19,554 resulted in net proceeds of \$380,446 of which \$102,483 were attributed to warrants.

b) Stock options

The Company has an incentive stock option program (the Program) pursuant to which the Board of Directors of the Company may allocate non-transferable options to purchase common shares to directors, officers, employees and consultants of the Company. The aggregate number of common shares that may be available for issuance from time to time under the Program is not to exceed ten (10%) percent of the number of common shares issued and outstanding in the capital of the Company, calculated on a fully diluted basis. Options granted under the Program must have an exercise price not less than the market value of the common shares (less any permissible discount) at the grant date and vest over a period of one year as resolved by the Board of Directors. These options are exercisable for a period of up to ten years from the date of grant, unless otherwise resolved by the Board of Directors. For purposes of the option pricing model, expected volatility is calculated based on the most recent historical period equal to the option's expected term.

The Company recognized stock based compensation expense of \$16,152 for the nine months ended September 30, 2017 (2016 – \$nil).

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

2017 transactions

On April 10, 2017, the Company granted to certain directors and employees 325,000 stock options at an exercise price of \$0.05. These stock options vest immediately. The estimated fair value of these options is \$0.0497 per option and has been determined using the Black-Scholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	171.90%
Risk-free interest rate	1.60%
Expected life of options	10 years

The following table summarizes information relating to stock options outstanding and exercisable under the Program at September 30, 2016 and December 31, 2016.

	Nine-month period ended September 30, 2017		Year ended December 31, 2016	
	Stock options #	Weighted average exercise price \$	Stock options #	Weighted average exercise price \$
Outstanding –				
Beginning of period	1,323,000	0.28	1,323,000	0.28
Granted	325,000	0.05	-	-
Outstanding –				
End of period	1,648,000	0.24	1,323,000	0.28
Exercisable –				
End of period	1,648,000	0.24	1,323,000	0.28

	Nine-months ended September 30, 2017			
	Outstanding		Exercisable	
Range of exercise price \$	Weighted Average Exercise price \$	Number of shares #	Weighted average contractual life (years)	Number of shares #
\$0.45 to \$0.78	0.59	379,500	3.70	379,500
\$0.18 to \$0.35	0.29	416,000	5.63	416,000
\$0.05 to \$0.09	0.05	852,500	8.02	852,500
	0.24	1,648,000	6.42	1,648,000

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

Range of exercise price \$			2016	
	Weighted Average Exercise price \$	Number of shares #	Outstanding	Exercisable
\$0.45 to \$0.78	0.59	379,500	4.70	379,500
\$0.18 to \$0.35	0.29	416,000	6.63	416,000
\$0.05 to \$0.09	0.05	527,500	7.93	527,500
	0.23	1,323,000	6.86	1,323,000

c) Warrants

A summary of the Company's warrants is as follows:

	Nine-month period ended September 30, 2017			Year ended December 31, 2016		
	Warrants #	\$	Weighted average exercise price \$	Warrants #	\$	Weighted average exercise price \$
Outstanding – Beginning of year	-	-	-	1,366,667	231,815	0.40
Issued net of issuance costs	2,500,000	102,483	0.10	-	-	-
Expired	-	-	-	(1,366,667)	(231,815)	0.40
	2,500,000	102,483	0.10	-	-	-
Weighted average remaining contractual life			2.84 years			0 years

The estimated fair value of the warrants issued on May 2, 2017 is \$0.0464 per warrant and has been determined using the Black-Sholes option pricing model with the following assumptions:

Dividend Yield	Nil%
Expected volatility	232.70%
Risk-free interest rate	0.67%
Expected life of options	2 years
Share Price	\$0.05

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

5 Related party transactions

Certain related parties provide services to the Company either directly or through companies that they control. Fees charged by such companies for administrative and professional services were as follows:

	Relationship	Transaction	Three-month period ended September		Nine-month period ended September	
			30, 2017 \$	2016 \$	30, 2017 \$	2016 \$
Bruce Hirsche, Parlee McLaws LLP	Corporate Secretary and Legal Counsel, Director	Professional fees	30,784	-	55,777	6,023
		Interest expense	75	313	366	938
Bernard Grobbelaar Oikonomos Chartered Accountants	Chief Financial Officer, Director	Professional fees	21,292	22,725	62,543	62,175
		Interest expense	-	188	38	313
Dr. Gerard Tertzakian	Director	Interest expense	200	500	753	1,250
Dr. James Timourian	Chairman	Services	4,500	-	9,000	-
		Interest expense	-	295	125	456
Dr. Wolfgang Muhs	Director	Interest expense	200	500	753	1,250

At September 30, 2017, \$22,656 (2016 – \$80,925) remained outstanding and is included in accounts payable. These services are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

6 Net change in non-cash working capital items

	2017 \$	2016 \$
Trade and other receivable	65,421	(82,959)
Inventory	2,074	(7,660)
Prepaid expenses	(6,526)	6,012
Accounts payable and accrued liabilities	(206,085)	67,544
Deferred revenue	(1,015)	4,889
	<u>(146,131)</u>	<u>24,198</u>

(6)

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

7 Repayable contributions

The Company entered into two Canadian Agricultural Adaptation Program (“CAAP”) repayable contribution agreements with the Agriculture and Agri-Food Canada (“AAFC”) for total possible funding of \$912,250 receivable over the period from June 20, 2010 through March 31, 2012.

As the contributions are non-interest bearing, the fair value at inception is estimated as the present value of the principal payments required, discounted using the prevailing market rates of interest for a similar instrument estimated to be 15% per annum. The difference between the fair value of the contributions and the cash received is accounted for as a government grant.

Under the CAAP program all refundable contributions required repayment no later than eight years from the year following the project’s end date.

The balance of repayable contribution is derived as follows:

	September 30, 2017	December 31, 2016
	\$	\$
Opening balance – January 1	866,151	568,246
Repayment	(140,000)	(3,501)
Accretion of discount	-	51,168
Carrying value adjustment	-	246,437
Interest expense	19,042	3,801
	<u>745,193</u>	<u>866,151</u>
Less:		
Forgiveness of debt	(745,193)	-
Current portion	-	(866,151)
	<u>-</u>	<u>-</u>

On September 7, 2017 the Company completed a debt settlement agreement with AAFC and paid the settlement amount of \$140,000.

Innovotech Inc.

Notes to Financial Statements

(Unaudited) September 30, 2017 and 2016

8 Geographic information

Geographic information about the Company's revenue is based on the product shipment destination and, for contract research, on the location of the contracting organization.

	<u>Three-month period ended</u>		<u>Nine-month period ended</u>	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
	\$	\$	\$	\$
Canada	4,537	4,447	11,651	21,584
United States	170,117	188,583	553,119	489,704
Rest of world	83,846	64,550	230,486	152,019
	<u>258,500</u>	<u>257,580</u>	<u>795,256</u>	<u>663,307</u>

All of the Company's equipment and intangible assets are located in Canada.

9 Due to shareholder

The amount due to shareholders of the Company consists of \$69,000 promissory notes, which bears interest at a fixed rate of 10% per annum and is repayable on demand.

10 Subsequent events

Included in accounts payable and accrued liabilities is \$50,366 owed to The Hospital for Sick Children ("SickKids"). On October 12, 2017 the Company executed a debt settlement agreement with SickKids and paid the settlement amount of \$10,073.